



NORTHEAST POWER COORDINATING COUNCIL, INC.  
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# Compliance Audit Report Public Version

## Flat Rock Windpower LLC NCR07087

### September 9 to September 29, 2009

Confidential Information (Including Privileged and  
Critical Energy Infrastructure Information)  
Has Been Removed

### September 29, 2009

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## Executive Summary

This final compliance audit report is the public version. Confidential information (including privileged and critical energy infrastructure information) has been redacted from this report. The full final compliance audit report was submitted to the audited entity and NERC.

The off-site compliance audit of Flat Rock Windpower LLC (FRW), NERC ID #NCR07087 was conducted from September 9 to September 29, 2009. Flat Rock Windpower was audited for its registered functions of Generator Owner (GO) and Generator Operator (GOP). The audit team evaluated Flat Rock Windpower's compliance with thirteen reliability standards in the 2009 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit reviewed reliability standards identified in the NERC 2009 Implementation Plan for the period of the last twelve months or monitoring timeframes specified in each reliability standard. The audit was completed using data submitted by Flat Rock Windpower and telephone and email data exchanges. Of the thirteen standards audited, twelve were judged to be compliant; however, one standard was found to be non-applicable to Flat Rock Windpower. The thirteen standards contained a total of sixty requirements, forty-six of which were judged to be compliant while fourteen were non-applicable to Flat Rock Windpower.

Flat Rock Windpower provided a subject matter expert for each standard resulting in a more clear understanding of the Flat Rock Windpower business model and accelerated the audit process. The evidence provided to demonstrate compliance required requests for additional information and evidence. The Flat Rock Windpower audit team responded to requests for further information in an expeditious manner. The audit team would like to thank the Flat Rock Windpower team for the support offered throughout the audit.

There were no ongoing or recently completed mitigation plans and, therefore, none were reviewed by the audit team.

## Audit Process

The compliance audit process steps are detailed in the NERC CMEP. The NERC CMEP generally conforms to the United States Government Accountability Office Government Auditing Standards and other generally accepted audit practices.

## **Objectives**

All registered entities are subject to audit for compliance with all reliability standards applicable to the functions for which the registered entity is registered.<sup>1</sup> The audit objectives are to:

- Independently review Flat Rock Windpower's compliance with the requirements of the reliability standards that are applicable to Flat Rock Windpower based on the registered functions.
- Validate compliance with applicable reliability standards from the NERC 2009 Implementation Plan list of actively monitored standards and additional NERC reliability standards selected by NERC.
- Validate compliance with applicable Regional Standards from the NPCC 2009 Implementation Plan list of actively monitored standards.
- Validate evidence of self-reported violations and previous self-certifications and confirm compliance with other requirements of the reliability standard.
- Review the status of associated mitigation plans.
- Observe and document Flat Rock Windpower's compliance program and culture.

## **Scope**

The audit included all standards identified in the June 30, 2009 audit letter for the previous year. The audit was a regularly scheduled audit and there were no self-reported violations or compliance investigations involved.

At the time of the audit, Flat Rock Windpower was registered for the functions GO and GOP. The audit team evaluated Flat Rock Windpower for compliance during the period of June 18, 2007 to September 29, 2009.

## **Confidentiality and Conflict of Interest**

Confidentiality and Conflict of Interest of the audit team are governed under the Delegation Agreement with NERC and Section 1500 of the NERC Rules of Procedure. Confidentiality agreements executed by the independent contractors and code of conduct documentation for the NERC representatives and regional entity staff were provided to

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<sup>1</sup> North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

the audited entity in advance of the audit. The audited entity was given an opportunity to object to an audit team member on the basis of a possible conflict of interest or the existence of other circumstances that could interfere with the audit team member's impartial performance of duties. The audited entity accepted the audit team member participants with no objections.

### ***Off-site Audit***

Flat Rock Windpower was provided with a pre-audit request letter identifying the standards and requirements subject to audit. The audit letter was sent to Flat Rock Windpower more than 60 days in advance of the scheduled audit. This is an off-site audit conducted every six years or as determined to be necessary by the region. Flat Rock Windpower had no self-reported violations during the audit period.

The audit team leader requested that Flat Rock Windpower employees representing subject matter expertise regarding all the registered functions of Flat Rock Windpower be made available for interviews via conference calls should the need arise. These interviews in conjunction with evidence provide the audit team with a basis for professional judgment when validating compliance with reliability standards.

Generally accepted government auditing standard 3.39 places responsibility on each auditor and audit organization to exercise professional judgment in planning and performing an audit or attestation engagement; it does not imply unlimited responsibility nor does it imply infallibility on the part of either the individual auditor or the audit organization. Absolute assurance is not attainable because of the nature of evidence and the characteristics of fraud. Professional judgment does not mean eliminating all possible limitations or weaknesses associated with a specific audit but rather identifying, considering, minimizing, mitigating, and explaining them.

### ***Methodology***

The audit team prepared reliability standards audit worksheets (RSAWs) to evaluate each standard. The RSAWs are used to ensure consistency and to document evidence of compliance or non-compliance with the standards. All relevant documents are considered and to the extent they form a portion of the audit trail are included in the RSAWs.

### ***Audit Overview***

The audit overview was conducted at 11:00 AM on September 9, 2009 via conference call. The auditor noted that he had signed a confidentiality agreement with NPCC. The

audit process was discussed along with a timeline of the audit's duration. As a registered GOP and GO, Flat Rock Windpower would be audited on thirteen standards. It was noted that the auditor does have the authority to expand the audit beyond the initial set of identified standards and requirements should the need arise. A brief explanation of the audit process was given and the timelines were discussed. Flat Rock Windpower was given the opportunity to reject the auditor should they feel that there was a possible conflict of interest or they thought the auditor would not be impartial. Flat Rock Windpower accepted the audit team.

### ***Audit***

The audit was performed off-site by NPCC Staff. The auditor developed a list of questions for Flat Rock Windpower to answer; the list was then sent to Flat Rock Windpower for their review. Flat Rock Windpower then took the time necessary to develop the answers and submitted them by email to the auditor.

### ***Exit Briefing***

The exit briefing was conducted via conference call at 11:30 AM on September 29, 2009. The teleconference was between NPCC staff and representatives of Flat Rock Windpower. NPCC staff reviewed the audit process and summarized the findings of the audit. After reviewing all the data, Flat Rock Windpower was judged to be compliant with twelve of the standards; however, one of the standards was deemed to be not applicable. The thirteen standards contained a total of sixty requirements, forty-six of which were judged to be compliant while fourteen were non-applicable to Flat Rock Windpower.

Flat Rock Windpower representatives thanked the audit team for their efforts in providing clarity and guidance during the audit process. It was further stated that the FRW management takes compliance very seriously and that they were very pleased that the audit was successful.

### ***Company Profile***

Flat Rock Windpower LLC and Flat Rock Windpower II LLC (Maple Ridge Wind Farm) is indirectly owned by Horizon Wind Energy LLC and Iberdrola Renewables. Maple Ridge is operated by Horizon Wind. Horizon Wind is owned by EDP Renovaveis S.A. (NYSE Euronext: EDPR), a global leader in the renewable energy sector that designs, develops, manages and operates power plants that generate electricity using renewable

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energy sources. With a sound development pipeline, first class assets and market-leading operating capacity, EDPR has undergone exceptional development in recent years. Energias de Portugal, S.A. ("EDP"), the parent company of EDPR, is a vertically-integrated utility company, headquartered in Lisbon, Portugal. Through its various constituent businesses, EDP holds significant electricity and gas operations in Europe, Brazil and the United States.

***Audit Specifics***

The compliance audit was conducted from September 9 to September 29, 2009 at the offices of the NPCC Audit Staff.

<b>Audit Team Role</b>	<b>Title</b>	<b>Company</b>
Lead	Contracted Consultant	NPCC-Compliance Audit Program
Member	Manager Compliance Audit Program	NPCC-Compliance Audit Program

**Flat Rock Windpower LLC**

<b>Title</b>	<b>Organization</b>
Regulatory Reporting Specialist	Flat Rock Windpower
Senior Manager – Regional Operations	Flat Rock Windpower
Reliability Engineer - Regional Operations	Flat Rock Windpower

## Audit Results

Flat Rock Windpower provided data used to demonstrate their compliance with the standards identified in the audit letter from NPCC. When the auditor had additional questions, emails were used to request additional documentation until the auditor was convinced that the standards and requirements had been met and Flat Rock Windpower had demonstrated compliance.

***Findings***

The following table details findings for compliance with the reliability standards listed in the NERC 2009 Implementation Plan.

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<b>Reliability Standard</b>	<b>Requirement</b>	<b>Finding</b>
CIP-001-1	R1	Compliant
	R2	Compliant
	R3	Compliant
	R4	Compliant
COM-002-2	R1	Compliant
FAC-008-1	R1	Compliant
	R1.1	Compliant
	R1.2	Compliant
	R1.2.1	Compliant
	R1.2.2	Compliant
	R1.3	Not Applicable
	R1.3.1	Compliant
	R1.3.2	Compliant
	R1.3.3	Compliant
	R1.3.4	Compliant
	R1.3.5	Not Applicable
	R2	Compliant
	R3	Compliant
FAC-009-1	R1	Compliant
	R2	Compliant
IRO-001-1	R8	Compliant
IRO-004-1	R4	Compliant
IRO-005-1	R13	Compliant
PRC-001-1	R1	Compliant
	R2	Compliant
	R2.1	Compliant
	R3	Compliant
	R3.1	Compliant
	R5	Compliant
	R5.1	Compliant
PRC-004-1	R2	Compliant
	R3	Compliant
PRC-005-1	R1	Compliant

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<b>Reliability Standard</b>	<b>Requirement</b>	<b>Finding</b>
	R1.1	Compliant
	R1.2	Compliant
	R2	Compliant
	R2.1	Compliant
	R2.2	Compliant
PRC-017-0	R1- R1.5	Not Applicable
TOP-001-1	R3	Compliant
	R6	Compliant
	R7	Compliant
	R7.1	Compliant
	R7.3	Compliant
TOP-002-2	R3	Compliant
	R13	Not Applicable
	R14	Compliant
	R14.1	Compliant
	R14.2	Not Applicable - Retired.
	R15	Compliant
	R18	Compliant

### ***Compliance Culture***

The audit team reviewed the Flat Rock Windpower compliance culture. Flat Rock Windpower exhibited a serious approach to compliance; this was evident in their procedures and their adherence to those procedures. Flat Rock Windpower was found to be responsive to follow-up requests and questions. Their audit team responded to all requests for additional information in a timely manner; the presentation and content of both the original and follow-up information was professionally done. The involvement and support of upper management, as evidenced by the training examples given, exhibits a very positive commitment by the corporation to the compliance of the NERC Standards and the reliable operation of the BES.